

Accounting and Information
Management Division

B-271042

February 12, 1996

Ms. Phyllis A. Hudson, Director,
Defense Finance and Accounting
Service, Cleveland Center
1240 East Ninth Street
Cleveland, Ohio 44199-2055

Dear Ms. Hudson:

As part of our broad review of the Navy's fiscal year 1994 financial operations, we examined appropriation balances reported for undelivered orders, along with related balances for accounts payable, for the approximately 200 appropriations reported by the Navy as of September 30, 1994. Our review was conducted in accordance with generally accepted government auditing standards. We identified two appropriations where Defense Finance and Accounting Service, Cleveland (DFAS-Cleveland) staff reduced undelivered orders with unsupported adjustments totaling about \$72 million. DFAS-Cleveland staff said they made these adjustments pursuant to their practice of routinely eliminating negative undelivered orders balances from the Report on Budget Execution (DD 1176) whenever such balances arose without first researching the transactions on which they were based. Your staff advised us that they have discontinued this practice as a result of our having brought it to their attention during our review.

The purpose of this letter is to bring to your attention the conditions we found regarding the handling of negative undelivered orders by DFAS-Cleveland and to request supporting documentation regarding process changes and accounting adjustments discussed below.

Eliminating Negative Undelivered
Orders Can Be Misleading

A negative balance for undelivered orders is a "red flag," signaling a problem that needs to be investigated and resolved.¹ It could indicate that (1) obligations

¹The situation where disbursements exceed obligations is part of a larger
(continued...)

were not properly recorded, (2) disbursements were charged to the wrong appropriation, (3) duplicate payments or overpayments occurred, or (4) the Navy actually spent more than it obligated and potentially more than its available budget authority, in violation of the Anti-Deficiency Act. Because DFAS-Cleveland's practice arbitrarily eliminated such balances, it removed from key reports one indicator that potential funding or accounting problems existed. Moreover, it compounded the problem by arbitrarily reducing a liability such as accounts payable and increasing an asset such as refunds due.

For example, in preparing the Navy's September 30, 1994, Report on Budget Execution for the 1988/1990 Aircraft Procurement, Navy appropriation, DFAS-Cleveland Center adjusted the Navy's negative undelivered orders balance (-\$71.7 million) to zero, applied the negative \$71.7 million to reduce the \$52.1 million accounts payable liability, and reclassified the difference (\$-19.6 million) to increase the asset refunds due. (See table 1.) The only footnote provided for this balance stated that the \$19.6 million was from refunds due, which is clearly misleading.

Table 1: DFAS-Cleveland's Accounting for Negative Undelivered Orders From September 30, 1994, Report on Budget Execution for 1988/1990 Aircraft Procurement, Navy Appropriation

(Dollars in millions)

DD 1176 line	Title	Unadjusted balances	Amounts reported
13A1	Undelivered orders	\$(71.7)	\$0
13A2	Accounts payable	\$52.1	\$0
13A3	Advances, prepayments, refunds	\$0	\$19.6

¹(...continued)

Defensewide issue referred to as problem disbursements that we reported on in the past. As of November 30, 1995, Defensewide problem disbursements totaled \$22.1 billion. Of this amount, the Navy accounted for \$13.5 billion. We testified on this issue in May 1995 before the Subcommittee on Defense, Committee on Appropriations, United States Senate (GAO/T-AIMD-95-146, May 23, 1995).

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